

Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

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TOWNSHIP OF TAWAS
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED MARCH 31, 2004

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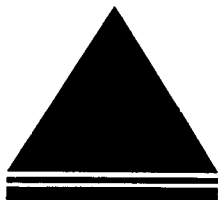
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AUDITORS' REPORT

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May 20, 2004

Independent Auditors' Report

Township Board
Township of Tawas
Iosco County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Tawas, Iosco County, Michigan, as of and for the year ended March 31, 2004, as listed in the index. These general purpose financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Township of Tawas, Iosco County, Michigan, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2004 on our consideration of the Township of Tawas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Stephenson, Gracik & Co., P.C.

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name TOWNSHIP OF TAWAS	County IOSCO
Audit Date 03/31/2004	Opinion Date 05/20/2004	Date Accountant Report Submitted to State: JUNE 30, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

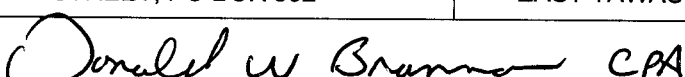
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature  CPA			

TOWNSHIP OF TAWAS
Iosco County, Michigan

COMBINED BALANCE SHEET -
 ALL FUND TYPES AND ACCOUNT GROUPS
March 31, 2004

	<u>Governmental Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Group</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	
<u>ASSETS</u>				
Cash (Note 2)	\$ 10,504	\$ 100	\$ 0	\$ 10,604
Certificates of deposit (Note 2)	138,522	0	0	138,522
Investments (Note 2)	219,089	0	0	219,089
Receivables:				
Assessments	21,751	0	0	21,751
Due from other funds (Note 4)	100	0	0	100
Land and improvements (Note 5)	0	0	18,675	18,675
Buildings and improvements (Note 5)	0	0	60,621	60,621
Equipment and fixtures (Note 5)	0	0	28,416	28,416
Total Assets	<u>\$ 389,966</u>	<u>\$ 100</u>	<u>\$ 107,712</u>	<u>\$ 497,778</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Due to other funds (Note 4)	\$ 0	\$ 100	\$ 0	\$ 100
Accrued liabilities	135	0	0	135
Total liabilities	<u>135</u>	<u>100</u>	<u>0</u>	<u>235</u>
<u>Fund Equity</u>				
Investment in general fixed assets (Note 5)	0	0	107,712	107,712
Fund balances:				
Unreserved:				
Undesignated	389,831	0	0	389,831
Total fund equity	<u>389,831</u>	<u>0</u>	<u>107,712</u>	<u>497,543</u>
Total Liabilities and Fund Equity	<u>\$ 389,966</u>	<u>\$ 100</u>	<u>\$ 107,712</u>	<u>\$ 497,778</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF TAWAS
Iosco County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
For the Year Ended March 31, 2004

	Governmental Fund Types
	<u>General Fund</u>
<u>Revenue</u>	
Taxes	\$ 99,850
Licenses and permits	1,125
State revenue	123,169
Charges for services	11,528
Interest	3,029
Other revenue	23,003
Total revenue	<u>261,704</u>
<u>Expenditures</u>	
Current:	
General government	44,078
Public safety	44,417
Public works	198,390
Other functions	6,955
Capital outlay	3,706
Total expenditures	<u>297,546</u>
Excess of revenue over (under) expenditures	(35,842)
Fund balance - beginning of year	<u>425,673</u>
Fund balance - end of year	<u>\$ 389,831</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF TAWAS
Iosco County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended March 31, 2004

	General Fund		Variance -
	Budget	Actual	Favorable (Unfavorable)
<u>Revenue</u>			
Taxes	\$ 95,530	\$ 99,850	\$ 4,320
Licenses and permits	1,125	1,125	0
State revenue	130,880	123,169	(7,711)
Charges for services	13,470	11,528	(1,942)
Interest	2,000	3,029	1,029
Other revenue	1,261	23,003	21,742
Total revenue	<u>244,266</u>	<u>261,704</u>	<u>17,438</u>
<u>Expenditures</u>			
Current:			
General government	49,012	44,078	4,934
Public safety	49,499	44,417	5,082
Public works	200,438	198,390	2,048
Other functions	18,338	6,955	11,383
Capital outlay	5,000	3,706	1,294
Total expenditures	<u>322,287</u>	<u>297,546</u>	<u>24,741</u>
Excess of revenue over (under) expenditures	(78,021)	(35,842)	42,179
Fund balance - beginning of year	<u>425,673</u>	<u>425,673</u>	<u>0</u>
Fund balance - end of year	<u>\$ 347,652</u>	<u>\$ 389,831</u>	<u>\$ 42,179</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Tawas operates under an elected Township Board (five members) and provides services to its residents in many areas, including road maintenance and fire protection. The financial statements of the Township of Tawas have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Township's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All activities over which the Township exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

1. Governmental Funds:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

2. Fiduciary Fund:

This fund is used to account for assets held in trust or as an agent for others, and consists of the Current Tax Collection Fund.

3. Account Group:

General Fixed Asset Account Group - This account group presents the fixed assets of the local unit utilized in its general operations.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Township, available means expected to be received within 60 days of the fiscal year-end.

TOWNSHIP OF TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Township must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

The financial activity of the Agency Fund is limited to collection of amounts which are subsequently returned or paid to third parties and, accordingly, are limited to cash transactions. All governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

1. Property taxes and other revenue that are both measurable and available for use for financial operations are recorded as revenue when collected.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

For the current year, the taxable value for properties located within the Township was \$37,660,970. The tax rate was .8810 mills for operations and 1.4644 mills for fire protection.

2. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
3. Payrolls and other costs are recorded when incurred.
4. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Elements of the Significant Accounting Policies

Inventories:

Inventories have not been recognized in the financial statements as they are not material and have been expensed when purchased.

TOWNSHIP OF TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Elements of the Significant Accounting Policies (Continued)

Fixed Assets:

General fixed assets are recorded as expenditures at the time of purchase. The assets are then recorded in the fixed asset group of accounts to maintain their identity and related costs. Because original purchase documents were not available for the land and some building costs, the original cost of such assets has been estimated on the basis of such documentary evidence that was available including price levels at the time of acquisition.

Budgets and Budgetary Accounting:

The Township normally follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Township clerk submits a proposed operating budget to the Township Board which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted or as amended by the Township Board.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Township Board.

NOTE 2 - DEPOSITS AND INVESTMENTS

The captions on the financial statements for the deposit and investment accounts are as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash	\$ 10,604	\$ 0	\$ 10,604
Certificates of deposit	138,522	0	138,522
Investments	<u>0</u>	<u>219,089</u>	<u>219,089</u>
	<u>\$ 149,126</u>	<u>\$ 219,089</u>	<u>\$ 368,215</u>

TOWNSHIP OF TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits:

Deposits are carried at cost. Deposits of the Township are held at various banks in the name of the Township. At March 31, 2004 the carrying amounts of the Township's deposits were classified as to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 105,100	\$ 105,100
Uninsured - uncollateralized	<u>44,026</u>	<u>44,026</u>
	<u>\$ 149,126</u>	<u>\$ 149,126</u>

Investments:

The Township Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Township to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which matures not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Township's deposits and investments are in accordance with statutory authority.

The Township's investments are categorized to give an indication of the level of risk assumed by the Township at March 31, 2004. The categories are described as follows:

- Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.
- Category 2 - Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the entity's name.
- Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

TOWNSHIP OF TAWAS
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments: (Continued)

All investments at March 31, 2004 consisted of the following which are not required to be categorized.

	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Nonrisk - Categorized</u>		
Financial institution pooled funds	<u>\$ 219,089</u>	<u>\$ 219,089</u>

NOTE 3 - UNEMPLOYMENT COMPENSATION

The Township is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Township must reimburse the Employment Commission for all benefits charged against the Township. No liabilities have been incurred as of March 31, 2004.

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables have not been eliminated in the preparation of the Combined Balance Sheet (Exhibit A).

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>\$ 100</u>	Tax	<u>\$ 100</u>

NOTE 5 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
Land and improvements	\$ 18,675	\$ 0	\$ 0	\$ 18,675
Buildings and improvements	60,621	0	0	60,621
Equipment and fixtures	<u>24,710</u>	<u>3,706</u>	<u>0</u>	<u>28,416</u>
Totals	<u>\$ 104,006</u>	<u>\$ 3,706</u>	<u>\$ 0</u>	<u>\$ 107,712</u>

NOTE 6 - PENSION PLAN

The Township has a non-standardized money purchase pension plan with Municipal Retirement Systems, Inc. effective July 1, 1991. All full-time employees are covered under the plan. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date, have attained age 18. Vesting is 100% upon entering the plan.

TOWNSHIP OF TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 6 - PENSION PLAN (CONTINUED)

The Township is currently contributing an amount equal to 12% of the employee's gross earnings.

During the year, the Township's required and actual contributions amounted to \$2,573, which was 12% of its current year covered payroll. No pension provision changes occurred during the year that affected the required contributions to be made by the Township.

NOTE 7 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 8 - TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the combined statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

NOTE 9 - NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Township is required to implement this standard for the fiscal year ending March 31, 2005. The Township has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

OTHER DATA

REPORT ON OTHER DATA

May 20, 2004

Our audit was made for the purpose of forming an opinion on the March 31, 2004 general purpose financial statements taken as a whole. The individual fund financial statements, EXHIBITS E through G, are presented for purposes of additional analysis and are not a required part of the 2004 general purpose financial statements of the Township of Tawas, Iosco County, Michigan. The information has been subjected to the auditing procedures applied in the audit of the 2004 general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2004 general purpose financial statements taken as a whole.

Stephenson, Grubb & Co., P.C.

TOWNSHIP OF TAWAS
Iosco County, Michigan

GENERAL FUND
 DETAILS OF REVENUE - BUDGET AND ACTUAL
For the Year Ended March 31, 2004

	<u>2004 Budget</u>	<u>2004 Actual</u>
<u>Taxes</u>		
Current property taxes	\$ 84,776	\$ 88,377
Penalties and interest on delinquent taxes	40	107
Collection fees	<u>10,714</u>	<u>11,366</u>
	<u>95,530</u>	<u>99,850</u>
<u>Licenses and Permits</u>		
Zoning permits	<u>1,125</u>	<u>1,125</u>
<u>State Revenue</u>		
State revenue sharing	130,000	122,289
Liquor license fees	<u>880</u>	<u>880</u>
	<u>130,880</u>	<u>123,169</u>
<u>Charges for Services</u>		
Land division legal fees	1,270	750
Road oiling fees	12,000	10,778
Public health	<u>200</u>	<u>0</u>
	<u>13,470</u>	<u>11,528</u>
Interest	<u>2,000</u>	<u>3,029</u>
<u>Other Revenue</u>		
Special assessments	0	21,751
Refunds and reimbursements	936	856
Miscellaneous	<u>325</u>	<u>396</u>
	<u>1,261</u>	<u>23,003</u>
Total Revenue	<u>\$ 244,266</u>	<u>\$ 261,704</u>

TOWNSHIP OF TAWAS
Iosco County, Michigan

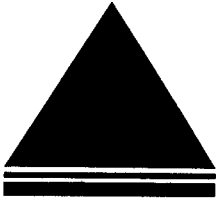
GENERAL FUND
 DETAILS OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended March 31, 2004

	<u>2004 Budget</u>	<u>2004 Actual</u>
<u>General Government</u>		
Township board	\$ 5,455	\$ 4,039
Supervisor	5,702	5,702
Assessor	14,052	13,383
Clerk	7,120	6,258
Treasurer	11,669	10,332
Board of review	860	595
Township hall	4,154	3,769
	<u>49,012</u>	<u>44,078</u>
<u>Public Safety</u>		
Fire protection	45,105	41,206
Planning commission	2,245	1,994
Zoning administration	270	0
Liquor law enforcement	957	784
Building inspections	922	433
	<u>49,499</u>	<u>44,417</u>
<u>Public Works</u>		
Street lighting	4,000	3,695
Highways, streets and bridges	196,438	194,695
	<u>200,438</u>	<u>198,390</u>
<u>Other Functions</u>		
Contingency	10,811	0
Insurance and bonds	3,458	3,458
Employee benefits	4,069	3,497
	<u>18,338</u>	<u>6,955</u>
Capital Outlay	5,000	3,706
Total Expenditures	\$ <u>322,287</u>	\$ <u>297,546</u>

TOWNSHIP OF TAWAS
Iosco County, Michigan

ALL TRUST AND AGENCY FUNDS
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended March 31, 2004

<u>CURRENT TAX COLLECTION FUND</u>				
	<u>Balance</u> <u>April 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>March 31, 2004</u>
<u>ASSETS</u>				
Cash	\$ <u>86</u>	\$ <u>708,279</u>	\$ <u>708,265</u>	\$ <u>100</u>
<u>LIABILITIES</u>				
Due to other funds	\$ 86	\$ 89,032	\$ 89,018	\$ 100
Due to county	0	377,703	377,703	0
Due to schools	<u>0</u>	<u>241,544</u>	<u>241,544</u>	<u>0</u>
Total Liabilities	\$ <u>86</u>	\$ <u>708,279</u>	\$ <u>708,265</u>	\$ <u>100</u>



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

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Herman A. Bertuleit, CPA

May 20, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Township Board
Township of Tawas
Iosco County, Michigan

We have audited the general purpose financial statements of the Township of Tawas as of and for the year ended March 31, 2004, and have issued our report thereon dated May 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township of Tawas' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Tawas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township of Tawas' ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

Separation of Duties in the Performance of Functions

Due to the limited number of staff of the Township, there is an absence of appropriate segregation of duties. The treasurer receives cash, performs bank reconciliations and writes and signs checks. We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks, without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts.

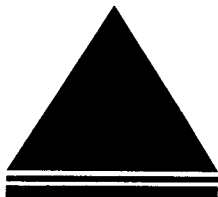
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described above to be a material weakness.

Stephenson, Gracik & Co., P.C.

Members of the Township Board
Township of Tawas
May 20, 2004
Page Two

This report is intended solely for the information and use of management, the Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



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May 20, 2004

Members of the Township Board
Township of Tawas
Iosco County, Michigan

Dear Board Members:

We have audited the general purpose financial statements of the Township of Tawas for the year ended March 31, 2004, and have issued our report thereon dated May 20, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated February 18, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the Township of Tawas' internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the Township of Tawas' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township of Tawas are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Township of Tawas during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township of Tawas' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township of Tawas, either individually or in the aggregate, indicate matters that could have a significant effect on the Township of Tawas' financial reporting process.

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M.A.C.P.A.

Stephenson, Gracik & Co., P.C.

Members of the Township Board
Township of Tawas
May 20, 2004
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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Tawas' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Separation of Duties in the Performance of Functions

Due to the limited number of staff of the Township, there is an absence of appropriate segregation of duties. The treasurer receives cash, performs bank reconciliations and writes and signs checks. We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks, without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts.

GASB 34 Implementation

New Financial Accounting Standards Affecting Governments

The format for governmental financial statements has been revised by the Governmental Accounting Standards Board (GASB), the organization responsible for promulgating accounting standards which governments must follow. The Statement, GASB Statement 34, requires these changes be implemented by all governmental units over the next several years. Significant changes from the current presentation include:

1. The addition of a transmittal letter describing management's analysis of the financial statements and current financial condition of the governmental unit.
2. The presentation of "Government Wide Financial Statements" on a full accrual accounting basis as opposed to the current "modified accrual basis".
3. The inclusion of "Individual and Combining Fund Financial Statements" presented on their existing basis of accounting including a reconciliation with the Government Wide Financial Statements.
4. The reporting of governmental activity expenditures net of "program revenues" to determine activity costs funded by public dollars (i.e. taxes, interest, etc.).

Stephenson, Gracik & Co., P.C.

Members of the Township Board
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May 20, 2004
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5. The requirement to report the value of infrastructure assets (i.e. road, bridges, etc.) as assets on the balance sheet of the governmental unit.
6. The requirement to report depreciation on all fixed assets, including infrastructure assets and general fixed assets.
7. The requirement to report both the original adopted budget and the final budget in the Budget to Actual comparative operating financial statement.

If adopted, the Township of Tawas will need to implement these changes by the year ended March 31, 2005.

Alternative Option Available

Currently, the State of Michigan Department of Treasury has passed a policy to allow the following departures from the above standards without sanctions against the unit of government.

- Omission of Management's Discussion and Analysis
- Omission of Government Wide Financial Statements
- Omission of Infrastructure Asset Reporting

If units of government elect to omit the above listed items, a "qualified" independent auditors' opinion will be issued by the CPA firm on the financial statements. The effect of the qualification is expected to be minimal.

The new reporting standards have wide-sweeping implications in terms of identifying and accumulating information to comply with the standard. We would be happy to discuss with you the options available to the Township of Tawas to assist in their implementation.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Township.

This information is intended solely for the use of management, Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.